

## Special Payments After Retirement

Bonuses, Vacation Pay, Commissions, Sick Pay, Carryover Crops, Royalties, etc.

Generally, if you are a Social Security beneficiary under 70 who works and earns over a certain limit, you aren't entitled to your full Social Security benefit.

The earnings limits for 1996 and 1997 are:

	1996	1997
□ Under age 65	\$ 8,280	\$ 8,640
□ Age 65-69	\$12,500	\$13,500

After you retire, you may receive payments for work you did before you started getting Social Security benefits. Usually, those payments will not affect your Social Security benefit if we know they are compensation for work done before you retired. However, many times we don't know this unless you tell us. This factsheet describes some of the more common types of "special payments," helps you to decide if you receive one, and tells you what steps to take if you do.

### What Qualifies As A Special Payment?

If you worked for wages, income received after retirement counts as a special payment if the last thing you did to earn the payment was completed before you stopped working for your employer.

Some special payments to employees include: bonuses, accumulated vacation or sick pay, severance pay, back pay, standby pay, sales commissions, payments on account of retirement, or deferred compensation reported on a W-2 form for one year that was earned in a previous year. These amounts **may** be shown on your W-2 in the box labeled "Nonqualified Plan."

If you were self-employed, net income received **after the first year you retire** counts as a special payment if you performed the services to earn the payment before you were entitled to receive Social Security benefits. "Services" are any regular work or other significant activity you do for your business.

Some special payments to self-employed people include income derived by an owner of a business who does not perform significant services in that business, farm agricultural program payments, income from carryover crops, or royalties paid to a person over 65 for a copyright or patent created before age 65.

### If You Think You Received A Special Payment

If you are a Social Security beneficiary whose total yearly earnings exceed the limit and these earnings include a special payment, you should contact Social Security. Tell us you think you received a special payment. If we agree, we will not count the amount of the special payment as part of your total earnings for the year.

### Some Special Payment Situations

These examples show how some types of special payments are treated under Social Security rules.

**Example 1:** Mr. De Silva retired at age 65 from his job at Crown Jewelry Company in November 1995 and began to receive Social Security benefits. In January 1996 Mr. De Silva received a check from his employer for \$15,000 for vacation time he earned while he worked. Since this amount is over the earnings limit for 1996 (\$12,500), Mr. De Silva should contact Social Security and explain that the payment is not earnings for work done in 1996, but vacation pay he accumulated before he retired. Social Security will consider the amount a special payment, and will not count it toward the earnings limit for 1996.

**Example 2:** Ms. Reed wrote a book in 1986. In 1995 at age 65, she began to receive Social Security benefits. In 1996, she received \$17,000 in royalties from her book. Since this amount is over the earnings limit for 1996

(\$12,500), Ms. Reed should contact Social Security to report that the amount she received was royalties, not a payment for work done in 1996. Since Ms. Reed did not perform any "services" in 1996 to earn the royalties, Social Security will consider them a special payment, and they will not count toward the earnings limit.

## Insurance Salespeople And Farmers

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Two specific occupational groups commonly receive earnings that qualify as special payments:

- Insurance salespeople who receive renewal or repeat commissions
- Farmers who receive income from carryover crops

### *Insurance Salespeople*

Many insurance salespeople continue to receive commissions after the year they retire for policies they sold prior to retirement. The example below shows how this income is treated.

Mr. Hirisk worked as an employee for Safety Net Insurance Company. In 1995 he retired at age 65 and began to collect Social Security benefits. In 1996 he received \$8,000 in renewal commissions on life insurance policies he sold before retirement. In addition, he continued to work part time in 1996 as a self-employed contractor for another insurance company. He received \$14,000 in net commissions from new policies he sold in 1996 working part time. Because his earnings include a special payment and exceed \$12,500 (the earnings limit for 1996), he should contact Social Security. The \$8,000 in commissions will not count toward the earnings limit for 1996, because Mr. Hirisk did the work to earn that amount before he retired. However, \$14,000 will count as earnings for 1996 because Mr. Hirisk performed the services necessary for the sale of these policies after he began receiving Social Security benefits.

### *Farmers*

Many farmers harvest and store crops in one year to be sold in another year. The following example shows how income received after retirement for carryover crops is treated.

Ms. Barnes retired from full-time farming in October 1995 at age 65 and began to receive Social Security benefits that month. In 1996 she worked part time on her farm and netted \$7,000. In addition, in 1996, she sold some grain she had harvested and stored before October 1995, netting \$10,000. Since her total earnings were over \$12,500 (the limit for 1996) and include a special payment, she should contact Social Security. The \$10,000 will be considered a special payment and will not count as earnings for 1996. This is because Ms. Barnes did the work necessary to earn the \$10,000 before she began to get Social Security benefits, and then received the \$10,000 in a year after she became entitled to Social Security.

## For More Information

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Other publications that may help you are *How Work Affects Your Social Security Benefits* (Publication No. 05-10069) and *If You Are Self-Employed* (Publication No. 05-10022).

You can get recorded information about Social Security coverage 24 hours a day, including weekends and holidays, by calling Social Security's toll-free number, **1-800-772-1213**. You can speak to a service representative between the hours of 7 a.m. and 7 p.m. on business days. Our lines are busiest early in the week and early in the month so, if your business can wait, it's best to call at other times. Whenever you call, have your Social Security number handy.

People who are deaf or hard of hearing may call our toll-free "TTY" number, 1-800-325-0778, between 7 a.m. and 7 p.m. on business days.

You can also reach us on the Internet. Type <http://www.ssa.gov> to access Social Security information.

The Social Security Administration treats all calls confidentially—whether they're made to our toll-free numbers or to one of our local offices. We also want to ensure that you receive accurate and courteous service. That is why we have a second Social Security representative monitor some incoming and outgoing telephone calls.

